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Employee Benefits for Special Circumstances

For more information on some of the benefit programs discussed here, as well as other fringe benefit programs, please review IRS Publication 15-B, "Employer's Guide to Fringe Benefits."

In addition, before you make any decisions, you may want to consult with your tax and legal professionals.

Most competitive employee benefit packages provide retirement, vacation, health, vision, dental, basic life, and disability insurance benefits, yet business owners might also consider additional programs to grab the attention of potential new hires. Fortunately, there are many benefit programs available, covering a variety of special circumstances, that can help round out and differentiate your offerings.

Many benefit programs offer tax advantages to both you and your employees. Even programs that may not offer a deduction could help lower your taxable payroll and therefore reduce payments to Social Security, Medicare, and federal unemployment insurance.

Dependent care assistance program (DCAP)

A DCAP is a written plan that helps employees pay for work-related dependent care services with pretax dollars. The program typically takes one of three forms:

- The employer reimburses the employee for qualified expenses
- The employer pays third parties for qualified expenses
- The employer provides an on-site facility to care for dependents of employees while they are working

The IRS allows you to exclude up to $5,000 from an employee's gross income to pay for qualified dependent care (or $2,500 for married employees filing separately), but the exclusion cannot exceed the lesser of the earned income of the employee or the spouse. Qualified expenses are excludable to employees if they otherwise would be eligible for the dependent care tax credit.

The services must be for a qualifying individual's care. A qualifying individual is a dependent of the taxpayer under the age of 13, or a dependent or spouse of the taxpayer who is physically or mentally incapable of taking care of himself or herself. IRS Publication 503, "Child and Dependent Care Expenses," provides more detail.

Expenses paid to a dependent of the employee, the employee's spouse, or a child of the employee under age 19 are not excludable.

Employers may be able to claim a tax deduction or a credit for the expenses incurred, depending on the type of dependent care services provided.

Certain rules apply to DCAPs. These programs cannot favor highly compensated employees over others (i.e., nondiscrimination rules apply), and you must provide reasonable notification to your employees about the plan's availability. In addition, you must provide an annual statement to each employee summarizing the amount you incurred in providing individual benefits (reported amounts on a W-2 form will generally suffice).

Another type of DCAP program is a flexible spending account (FSA) that allows qualifying employees to set aside up to $5,000 ($2,500 if married filing separately) per year, pretax, in an account that they can later use to pay for qualified dependent care expenses. FSA accounts generally cannot be carried over to the next calendar year, although the plan may allow for a grace period of up to 2½ months.

Education assistance

An employer can provide benefits to help employees further their education and/or maintain or improve job skills. Benefits can be provided through an education assistance program (EAP) or as a working condition fringe benefit.

Similar to a DCAP, an EAP is a written plan that is designed to benefit all employees. Through an EAP, you can exclude from gross income up to $5,250 in expenses that your employees incur and you pay for, including such costs as tuition, fees, books, and supplies. Expenses can be for undergraduate and graduate programs and do not have to be job-related. Certain rules apply, including nondiscrimination rules and a "reasonable notice" requirement. Note that employers must file an annual return with the IRS for an EAP.

Amounts over the limit stated above can be excluded from gross income, provided the educational expenses were considered a "working condition benefit"; that is, payments are for work-related educational programs and the employee would otherwise have been able to claim them as a deductible business or depreciation expense.

Legal services and identity theft protection

Benefits for legal services come in a wide variety of forms, from simple referral services to large group plans that offer comprehensive legal counseling for the price of a monthly payroll deduction. These benefits can provide valuable access to legal counsel for those employees who normally cannot afford a lawyer or do not know how to find legal counsel. Any payments you make on behalf of the employee are considered taxable income to the employee. These plans are subject to Employee Retirement Income Security Act oversight.

Another benefit program that has been gaining in popularity in recent years is an identity (ID) theft protection plan. Employers may choose to purchase ID theft insurance for their employees or may offer ID theft protection as a voluntary benefit paid for through payroll deduction.

Adoption assistance

An adoption assistance program helps your employees get the financial resources they need for the adoption process. You are permitted to exclude from an employee's gross wages any adoption payments or reimbursements you make, up to a maximum limit per adopted child ($14,080 in 2019; $13,810 in 2018). In addition, an employee may be eligible for a nonrefundable tax credit (up to $14,080 in 2019; $13,810 in 2018) for each eligible adoption. Both the exclusion and the employee's tax credit may be taken for the same adoption, but not for the same expenses. The benefit is subject to a phaseout that begins for employees with adjusted gross incomes of $211,160 in 2019 ($207,140 in 2018).

The program is subject to certain requirements, including nondiscrimination rules, and must be in writing. Notification of the plan's availability must be given to employees, and an employer must report benefits provided on an employee's W-2 form.

Payroll deduction services

A payroll deduction service is a way to help your employees build saving and investing habits. It allows employees to earmark a specified amount from each paycheck for savings, checking, or credit union account deposits; IRAs; college and health savings plans; insurance premiums; charitable contributions; and bill or loan payments. Payroll deduction contributions to IRAs may be tax deductible to employees, provided they meet certain income and other requirements.

Charitable matching contributions and volunteer programs

If philanthropy is important to you and your company, you may want to use a charitable matching contribution plan, which, as the name implies, allows you to match contributions that your employees make to qualified organizations. You can match both cash donations and volunteer efforts (by making a contribution in recognition of the employee's volunteerism). You might also allow your employees to take paid time off to volunteer. Your donations are deductible as a business expense (within limits).

Employee benefit statements

Once you put together your benefit plan, you'll want to be sure your employees understand the full value of it. Depending on the programs utilized, they could be receiving thousands of dollars in benefits over and above their wages. One way to help your employees understand and appreciate the value of these programs is to give them a personalized benefit statement. This statement can succinctly illustrate the variety and, perhaps more important, the value of the benefits you offer, helping to ease demands for raises and other forms of cash compensation. In addition, a full understanding of the efforts you are making on their behalf could lead to improved employee morale, reduced turnover, improved productivity, and ultimately greater profits.
